

CONSUMER ALERT



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RALS TAX TIME

With tax season quickly approaching, the Delaware Department of advises tax payers to be wary of tax refund loans, also known as refund anticipation loans (RALs). Other names for these types of loans include: Fast Cash Refunds, Express Money, Instant Refund, Paystub Loans, and Holiday Loans.

All of these common names are misleading because they are not refunds, they are loans. RALs are secured by and repaid from a pending income tax refund. Businesses that prepare and file an individual's tax return typically offer "Fast Cash Refunds." These ads will offer to deliver your refund in just a day or two, or even on the spot.

Because the loans are short term, the annualized interest rates are very high. When you get an RAL, you're borrowing against your tax refund money. Loan fees typically range from \$30 to \$90, which translates into an annual percentage rate of about 60% to over 700%.

A refund anticipation loan is a risky offer since a RAL is a loan from a bank in partnership with a tax preparer, and it must be repaid even if the IRS denies or delays your refund or if your refund is smaller than expected. If the taxpayer cannot pay back the RAL, the lender may send the account to a debt collector.

The following are better alternatives to RALs:

1. Open a bank account (if you haven't already) and take advantage of direct deposit for both your tax refund and your pay check. Many banks reduce or eliminate checking account fees when you have your pay check deposited directly to your checking account.
2. File your tax return electronically (E-file) with the refund deposited directly into your bank account.
3. When you do receive your refund, avoid check cashers. They charge fees to cash RAL and tax refund checks. Cash your check at a bank instead.
4. Reduce your income tax withholding so that you won't have to wait for a refund next year.
5. Volunteer Income Tax Assistance (VITA) – VITA sites provide free tax preparation to low and moderate-income taxpayers. These sites are sponsored by the IRS and can be found in libraries, community centers, and other locations during tax time.

6. Don't take on a new expensive debt to pay an old bill. If you have an urgent bill to pay, ask for more time until the tax refund check comes from the IRS.